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AUTHOR	McCall, H. Carl
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ABSTRACT

This report by the New York State Comptroller states that the state is currently making decisions regarding higher education based on short-term fiscal and political concerns rather than basing such decisions on long-range strategic plans founded on carefully deliberated policies. Specifically, New York has been without a comprehensive review of higher education policies for the last quarter century, that the state's investment in higher education ($3.7 billion annually) is not being effectively managed, that the state's higher education governance and planning structure does not work, and that higher education too often is the target of budget cuts because the effects of such cuts are not immediately visible. Recommendations urge a comprehensive reevaluation of state policies and reform of the permanent governance system for higher education. Such reform would involve establishment of a new higher education coordinating board, and a revised appointment procedure for trustees of public university systems. Attached supporting information includes an historical review of higher education studies; facts and figures; data on the economic impact of higher education; and information on the College Choice Savings Program. (DB)

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New York State's Higher Education Policy Vacuum

New York State has been without a comprehensive review of higher education policies now for a quarter of a century. Even in areas where historical policies exist, they are today being ignored, and our educational governance systems are no longer providing effective, independent leadership. Year after year vital decisions on higher education are made based on nothing more than the short-term fiscal possibilities and political needs. I urge that we instead take a strategic, policy-based approach, maximizing the economic and social benefits produced by investments in post-secondary education.

— H. Carl McCall

HE 031 539

H. Carl McCall
State Comptroller

September 1998

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A Message from State Comptroller H. Carl McCall

In April of this year, for the first time in a long time, it looked as though the budget passed would actually move New York State forward, rather than backward, in funding for higher education. At last we would begin to restore some of the cuts made earlier in the decade. These hopes were dashed with a series of vetoes that are particularly unfortunate when viewed in the context of this year's budget's relative lack of stringency elsewhere.

But with or without the vetoes, there is a lack of vision in the way post-secondary education is approached in this State. In fact, this year's budget is just one more example of a problem I have been talking about for quite some time. That is, we have a "policy vacuum" for higher education in this State, with choices made almost exclusively through our dysfunctional budget process. These choices are guided by short-term fiscal and political concerns, rather than by a strategic plan linked to economic development. After many years of this approach we have completely lost our moorings.

The sad truth is that New York State has been without a comprehensive review of higher education policies now for a quarter of a century. In the past, great strides forward were made on the principle that New York State had a need and responsibility to support higher education, and legislation was guided by a series of prestigious nonpartisan policy studies. In contrast today, there is no shared vision for higher education, and even in areas where historical policies exist, they are being ignored. There is no long-term plan describing what our educational needs will be, where the current system falls short, or where state resources are most needed. As the Regents recent examination of teacher education has demonstrated, current oversight practices do not ensure that all programs meet high quality standards. In many ways our current governance systems are no longer effectively advancing or even protecting higher education.

Nelson Rockefeller is deservedly remembered as New York State's most visionary leader in education. Governor Rockefeller knew that education is an issue that should be approached strategically, not something to be addressed in the last hours of budget-making. Under his leadership, higher education was valued and advanced, and policy was decided first, with funding following. Today, the reverse is true: "policy" ends up being whatever the budget dynamics produce.

I have been told by a number of educational leaders from both public and private institutions that what is most needed at the current time is for this State to undertake a fundamental reevaluation of its role in higher education. We must have a vision that goes beyond a single year's budget, and one that is based on a consensus about what the role and mission of our higher education institutions should be. Simply put, there is no topic more in need of a substantial reevaluation and no area more important to our long-term economic prospects than higher education.

New York State has a long-standing and proud tradition of providing broad access to higher education. As we move forward in the information age, education becomes even more important as a driver of economic development. I urge that we begin building a new consensus from the ground up about what we expect from our system of higher education and what New York State government's responsibilities should be.

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Executive Summary

- New York State has effectively been without a comprehensive review of higher education policies for the last quarter century — there is, in essence, a policy vacuum.

- Budget and policy decisions in this environment have been guided only by short-term fiscal needs and political agendas.

- The lack of a guiding policy means that the State's investment in higher education — some $3.7 billion annually — is not being effectively managed.

- In the coming decade, high school graduating classes are projected to grow by 25 percent, with 30,000 to 40,000 additional graduates each year. The State needs to plan for this surge.

- Although New York has an ambitious higher education governance and planning structure, the system has not worked for some time.

    - The breadth of the Regents responsibilities contributes to this problem because they are of necessity too preoccupied with elementary and secondary education to serve effectively as a post-secondary education coordinating body.

    - The Regents statewide planning process for higher education is widely viewed to be weak. It is also evident that the Regents current oversight practices have not successfully ensured that high standards are achieved at every institution.

- Higher education is often a target of budget cuts because the damage may not be immediately visible (rather, it accumulates over time); there are also no constitutional or federal mandates compelling state expenditures, as there are for many other programs. As a result, student aid programs, public university systems and community colleges have been cut and the original goals behind many programs have been forgotten.

- Support for independent colleges and universities has also been reduced without adequate consideration of the effect it has on these institutions, their students, or the State. In New York State a high proportion of students are served by private institutions (43 percent, compared to 22 percent nationally).

- The State's interests are not well served by this "higher-education-last" approach to budgeting, because it ignores the substantial payback over time in economic development, increased tax receipts, and reduced social services needs.

- Higher education increases the earning capacity, productivity and entrepreneurial ability of New Yorkers; it enhances the State's relative advantage in having a well-educated work force and a high critical mass of intellectual talent and ability. For example, high technology industries and other high value-added businesses tend to develop around learning hubs.

➤ Current Census data indicate that having a bachelors degree increases average lifetime earnings by about $600,000 compared to having only a high school diploma. The premium payed for higher education is also increasing — today a bachelor's degree increases earnings by 70-80 percent, whereas 20 years ago this differential was in the range of 45-55 percent.

➤ Post-secondary education is also a major service industry in New York State, spending more than $17 billion annually and employing more than 200,000 people; the economic impact of these activities may represent between 7 and 10 percent of the gross state product.

Recommendations:

The current policy vacuum for higher education will not allow New York State to reach its full potential. State leaders should strive to agree on higher education policies that will:

- Maintain broad access to post-secondary education;
- Foster economic development and greater productivity;
- Support quality public education, as well as a healthy private sector; and,
- Ensure that planning, governance and management practices all serve to maximize the effectiveness of state investments and uphold high quality standards.

To accomplish such goals, this report offers the following recommendations:

✓ There needs to be a comprehensive reevaluation of state policies. A statewide task force should be convened to develop a shared vision for higher education and prepare plans for reform. For a successful outcome, this effort would need to be nonpartisan, representative of the broad interests involved, and include significant participation from business.

✓ In conjunction with a consensus-seeking task force approach, New York State's permanent governance systems for higher education should be reformed:

— A new higher education coordinating board should be established to either replace or supplement the Board of Regents post-secondary responsibilities, and to guide state policies as conditions change. A cooperative appointment process should be used for this new board to provide a stronger linkage to leadership in the executive and legislative branches, while still preserving a healthy measure of independence.

— A revised appointment procedure should be developed for the trustees of the State's two public university systems. Screening committees or nominating boards should be used to help identify the best available candidates and ensure that trustees are able to independently serve as guardians of public university systems. Also, trustees should not concurrently be serving as employees of the appointing authority.

The Policy Vacuum

What is it?

The term "policy vacuum" is used in this report as a short-hand expression for the way in which decisions regarding higher education are made in New York State. It refers to a general absence of an accepted policy or plan to guide priorities, and the condition that almost all decisions relating to higher education are made in the State's dysfunctional budget process, based on only a single year's fiscal conditions and political desires.

At the current time there is no agreed-upon strategic plan on which to base decisions, and the original broadly based social commitments behind the establishment of New York State's higher education programs have seemingly been forgotten. The opportunity to maximize economic development and social benefits with limited state funds is being lost as each year's decisions are made in a vacuum.

The Office of the State Comptroller does not claim to have discovered the policy vacuum — it is a condition well known among higher education leaders and frequently described in reports in a number of contexts. The goal of this report is to describe and document the problem, with a view toward engendering support for a solution. Suggested approaches for tackling the problem are also discussed.

At the current time there is no agreed-upon strategic plan on which to base decisions, and the original broadly based social commitments behind the establishment of New York State's higher education programs have seemingly been forgotten.

Although higher education funding has been depressed in many states during the 1990's, and the policy vacuum is not a condition limited exclusively to New York, it appears that the problem is more severe here. Following is an illustrative description taken from a case study of New York State's higher education governance system prepared by out-of-state researchers:

> *The annual state appropriations process is the only process in New York in which the roles, responsibilities and support of public and private education are deliberated. In the appropriations process, the primary problems and priorities are fiscal ones and the focus is on short-term solutions. The state's capacity to develop explicit public policy goals, build consensus around them and assess progress in meeting them is very limited.*[1]

[1] *State Structures for the Governance of Higher Education — New York State Case Study*, Patrick Callan and Frank Bowen, prepared for the California Higher Education Policy Center, Spring 1997; page 25. This report provides a remarkably concise and useful background on higher education in New York, and also benefits from a presumed lack of bias, given that the study was undertaken for national comparative purposes.

Ideally, state policy choices regarding higher education should be based on a strategic plan embracing a broadly shared consensus about the role and mission of higher education institutions. Such a plan would provide a way to maximize economic development and employment impact. It would also articulate a consensus about citizens' access to higher education and the proper relationship of state government to public and private institutions.

In New York State, however, there is no long-term plan describing what the educational needs are, where the current system falls short, where excess capacity exists, or where state resources are most needed. Although there are nominally governance bodies and planning processes in place to address these issues, the reality is that they are not being addressed. The Regents statewide planning process, for example, is widely viewed to be weak, and these plans do not effectively guide executive or legislative decisions.

The policy vacuum is much more than an academic concern about a less than optimal decision-making process. In the absence of policy, decisions are made with only short-term political and fiscal concerns in view. Most of these decisions, particularly those occurring during this decade, have accrued to the general detriment of higher education and, as a result, to the State's economy.

Even in those areas where higher education policies do exist, they were usually adopted long ago and are today being ignored. Examples of this include the statutory provisions for community college support and Bundy aid to independent institutions that are annually over-ridden in budget legislation, and reductions in the Tuition Assistance Program (TAP) to levels far below its historical rate and original mission. *Where consensus has been formed in the past, in other words, even to the point of being statutorily enshrined, these commitments have today been abandoned for fiscal convenience.*

The policy vacuum is not new. Its origins go back to the middle 1970's and the combination of fiscal difficulties and declining college entrants. In New York State in the 1980's and 1990's the drift away from a policy-based approach accelerated due to a confluence of forces, including intermittently difficult fiscal conditions, a lack of executive interest, and a general decline in governmental processes and debate.

In an earlier era, higher education finance and governance practices in New York State were guided by widely shared principles and shaped by an important series of task force reports. These included the Heald report in 1960 (associated with the creation of the modern State University system), the 1968 Bundy report (leading to the provision of direct institutional aid to independent

The long-term neglect of higher education policy is extremely unfortunate, because conditions have changed dramatically over the last several decades and there is a need for a comprehensive reexamination of the issues.

colleges, or 'Bundy' aid) and the Keppel report in 1973 (including a focus on expanding student aid which led to the creation of the Tuition Assistance Program). Although New York is not without policy studies in the past several decades, none of these are really in the same league with the task force reports noted above, particularly in terms of defining the larger issues comprehensively, or building a consensus for decisive action.

Given that higher education is a driver of economic opportunity and development, the approach taken during the last decade — to cut as convenient, add when expedient — may in the longer term be extremely cost-ineffective.

Why is it a Problem?

The long-term neglect of higher education policy is extremely unfortunate, because conditions have changed dramatically over the last several decades and there is a need for a comprehensive reexamination of the issues.

The policy vacuum is much more than an academic concern about a less than optimal decision-making process. In the absence of policy, decisions are made with only short-term political and fiscal concerns in view. Most of these decisions, particularly those occurring during this decade, have accrued to the general detriment of higher education and, as a result, to the State's economy. For example:

- Public university budgets have been slashed repeatedly, with the share of operations funded by the State declining precipitously. Part-time adjunct faculty now rival the number of full-time faculty at some institutions, and the public universities are widely perceived to be systems in decline.

- The State's landmark student aid program, TAP, is no longer based on an agreed upon and consistent model of support — the grant schedules have been repeatedly bent to fit budgetary needs. The support for student choice originally envisioned for TAP, particularly insofar as independent institutions are concerned, has substantially eroded over the years.

- State and City university tuition levels are hiked in periods of fiscal difficulty and left flat in times of relative prosperity. Tuition increases under this approach are abrupt and sporadic, rather than being gradual and rational, as would facilitate planning for students and institutions. Tuition rates for various classes of student (e.g., in-state/out-of-state, graduate and undergraduate) are not approached in a rational manner, often being decided in the last phases of the budget negotiations and set to fulfill an overall target for reduced state funding.

- Support for independent institutions has been dramatically reduced over the past decade, despite their relative importance in New York State. Bundy aid, for example, has been

reduced by more than half. There is evidence of increasing financial problems being faced by some independent colleges and universities. With increased costs and student aid now covering a lower share of tuition, many institutions are surviving only through "tuition discounting" practices which may be unsustainable over the long term.

- Educational opportunity programs have been badly damaged by cuts, despite their vital purpose and effective record. For example, cuts in the HEOP program coupled with ineffective administrative practices focusing on bureaucratic control are threatening to cause a number of institutions to withdraw.

- Community colleges have not received the funding or attention they should, given their low cost and potential for technology training and meeting local employers needs. (Note: A follow-up report focusing on community colleges is planned.)

- Vital economic development programs, such as Centers for Advanced Technology (CATS) and "contract courses" designed to fit the needs of specific employers have been subject to budgetary vagaries. Support and design of these programs should instead be based on a rational and methodical review of their effectiveness.

Given that higher education is a driver of economic opportunity and development, the approach taken during the last decade — to cut as convenient, add when expedient — may in the longer term be extremely cost-ineffective. State investments in higher education have a substantial payback in increased economic activity, funds attracted from out of state, and in tax receipts received over time (a subsequent section of this report summarizes relevant research on this topic).

In many ways, higher education programs are particularly vulnerable to budget cuts, particularly given the absence of an accepted public commitment. This is because the effects of cuts in state support for post-secondary education are often not apparent for many years. Programs do not usually disappear immediately when cuts are made, the process is more one of gradual erosion. There is also no large unifying constituency or local tax base under pressure, as is the case for public schools. State support for higher education is not mandated by a constitutional or federal legal requirement, as many other aspects of state expenditures are. For all these reasons, budget cutters often find higher education a tempting target.

Given education's capability to raise earnings, enhance productivity and spur development, such a "higher-education-last" budgetary approach is undoubtedly sub-optimal for the State as a whole. The issue, in other words, has implications that go far beyond the interests of the colleges themselves, and those of current or prospective students and their families.

Obvious though it may be, it should be acknowledged that state funding for higher education must be dealt with in the budget process, and that politics will certainly enter that process from time to time. This report does not argue that the situation should be otherwise.

However, a review of deficiencies in the budget process is incidental to this report's broadest point, which is that the state should develop long-term policy goals and plans *outside* of the budget process. The premise for this recommendation is that a budget process for higher education guided by accepted policies, goals and plans will better serve the State's interests than a process without such guidance. If there are explicit policy goals and plans bounding the annual budget debate, the results will be improved even if the process remains imperfect.

It should also not be presumed that a significant increase in funding will be available from State sources, regardless of conclusions reached through a reexamination of the issues. This condition should not discourage a reevaluation, however, because even in a time of fiscal constraint, it is far preferable to base revenue allocations on a strategic approach that maximizes the benefit derived from state funding.

As background for this report, a number of meetings and discussions have been held with higher education leaders and experts. Given the great diversity of roles and interests represented in the persons consulted, a surprising degree of unanimity emerged in their observations. The overwhelming consensus is that the absence of a policy-based approach is currently the most serious problem confronting higher education in the State.

Piecemeal Decision-Making

Recent events provide graphic illustration of the drawbacks to piecemeal decision-making in an environment lacking an overarching plan or shared vision for higher education. For example, although there are a number of activities underway in connection with "reinventing" at both public university systems, many of these are shrouded by the concern among advocates that they are in truth veiled plans and justifications for down-sizing.

Budgeting Models at SUNY

One such instance concerns SUNY System Administration's changing of the resource allocation methodology (or RAM) used to apportion funds among campuses. In some respects, RAM is a very technical budgetary allocation issue, involving questions such as whether a 12-cell discipline/level matrix has advantages over a 40-cell model in capturing the differences among campuses' academic programs. In other aspects, however, the concern over RAM is much broader. This occurs largely because the technical discussion over allocation methods has been joined with a fundamental change in System Administration's budgeting approach, under which campuses will effectively be able to keep their own tuition and fee revenues.

If a campus attracts more students, it will be in a better position under the new approach. Conversely, campuses with declining enrollments will receive less. Some advocates are concerned that this approach will effectively spin off individual SUNY campuses, making them semi-independent institutions subject to market forces, and consequently subject to failure and possibly even eventual closure. On the other hand, more effectively bringing performance pressures and

rewards to bear on SUNY campuses may have some very positive effects. One of the reasons advanced for moving to a new system is that the current allocation methodology is said to not adequately reflect differences in mission among the campuses. New campus mission statements are now in process, and it is anticipated that these will lead to additional performance budgeting methods being applied within the RAM methodology.

Unfortunately, the discussion over RAM and budgeting approaches is taking place in the absence of a broadly shared vision for the State's public university system. This situation, in combination with distrust between the legislative and executive branches and between the SUNY trustees and many traditional advocates for public education, has produced a very divisive discussion. The discord has even led to the introduction of a "RAM-buster" bill which would require legislative sign-off on changes in allocation methods. It should be noted that a comprehensive discussion of the new RAM approach is beyond the scope of this report, and it is not the intention here to advocate either for or against the new approach. The point is that changes in budgeting methods could be better addressed if the larger issues concerning the role and mission of the State University were agreed to first. It is the lack of this shared commitment that has spurred controversy over RAM.

Restricting Remedial Education at CUNY

A similar example is provided by the controversial plan recently approved by the CUNY trustees to dramatically restrict remedial education at their four-year institutions. Unfortunately, the campaign for the restrictions was led more by political forces than by a studied effort to improve results. The discussion was also very narrowly focused on remediation as a single issue, rather than on the broader questions of what CUNY's mission should be and how quality for all programs (remedial and otherwise) can be ensured.

In May of this year the CUNY trustees adopted a policy eliminating remedial courses at the senior colleges and correspondingly changing admission standards for those institutions. There is widespread concern that implementation of this plan could dramatically limit the role that CUNY serves in providing access to higher education to New York City's unique urban population.

By some estimates, the Trustees policy would deny entrance to as many as 12,000 freshman each year (close to half of the current entering classes), and this reduction would eventually reduce tuition revenues and state funding by $18 to $50 million annually.[2] Remedial courses are also routinely offered at other institutions, and it is difficult to understand why CUNY should eliminate them. For example, a background piece presented by the CUNY Board itself cites a 1996 U.S.

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[2] *CUNY's 4-Year Colleges Ordered to Phase Out Remedial Education — University officials say the controversial plan could halve new enrollments*, Patrick Healy, Chronicle of Higher Education, June 5, 1998.

Department of Education survey finding that remedial courses are offered at 81 percent of public four-year colleges and more than 95 percent of high-minority campuses.[3]

The controversy continues, and the policy adopted by the CUNY trustees has now been challenged on several grounds. A court-ordered injunction obtained on the basis that the CUNY Board violated the open meetings law is blocking preparations for the phase-in of the new policy. Also, the State Board of Regents has announced that the policy cannot be implemented without their approval. The CUNY trustees are appealing the court decision and have notified the Regents that they do not believe the changed policy is subject to their review.

There is currently a great deal of discord between the CUNY trustees and others concerned with the University and the people it serves, and the debate over remedial instruction is at the center of it. A more fundamental reevaluation of CUNY's role and mission would probably be much less divisive than the debate limited to remediation; this would also be a more comprehensive and effective way to approach the issue of how standards can be raised.[4] Although remedial programs are often perceived in a poor light, as being less than college-level work, it is important to consider that the social and economic payback from these programs may be substantially greater than for prestigious graduate programs, as an example. The CUNY policy was unfortunately adopted without benefit of a thorough evaluation of the topic.

Community College Aid

A final example is provided this year by the Governor's veto of $19.5 million in appropriations supporting an increase in aid for community colleges and the subsequent reversal of that action. The legislative budget included an addition to support a $150-per-student increase in community college "base aid" for both SUNY and CUNY institutions that had been requested by the State University trustees. The increase is considered necessary to avoid tuition increases at many campuses, and to prevent a further drift away from the original 1/3 each state, local and tuition funding model upon which community colleges were founded.

In a most unusual procedure, the Executive announced an intention to essentially "un-veto" this item in a press release following the veto by only 41 days. The aid allocation for community colleges can be altered through a vote of the State University Board of Trustees, with Executive

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[3] *Highlights of CAP*, City University Board of Trustees (April 1998).

[4] A mayoral task force appointed in May and headed by Benno Schmidt (a former Yale president) will be reporting later this fall. Although a task force to look at the issues facing CUNY is potentially a good way to broaden the discussion, there are questions as to whether this will occur in this effort, as the group was appointed exclusively by the mayor and in direct response to the remedial education controversy. The charge to the group also seems to present foregone conclusions (e.g., it specifies that recommendations should include "the best means of arranging for third-parties to provide remediation"). The task force meetings have been held in private and the group is viewed with some suspicion by many CUNY advocates.

approval. However, it is not possible to administratively restore the vetoed appropriations, and unless additional appropriations are enacted, the payments to community colleges will have to be "rolled out" of the 1998-99 state fiscal year, and paid later than usual.[5]

There have been plans in the past to codify community college aid provisions, although such efforts were abandoned over time as state support eroded and tuition payments grew in relative importance. Although a statutory formula would add a greater degree of legislative control over this issue, it should be noted that codification is not a binding solution. For example, a section of the Education Law which limits community college tuition charges to one-third of operating costs has been annually suspended by language in the budget bills since 1991. A widely-shared and publicly affirmed commitment can actually be a much stronger determinant of annual support than a long-ignored statute.

As welcome as the increased community college aid is, its handling this year provides a perfect illustration of why it would be preferable to have a broad policy understanding reached outside of each year's budget debate. In this case, historical and statutory policies on support of community colleges were ignored and the aid level has been subjected to abrupt shifts without any underlying rationale.

A Governance Structure Not Working

New York State has an illustrious history in higher education, including the development of an ambitious governance structure. However, it is almost universally accepted that this structure is no longer working, and has not been for some time.

State Board of Regents

The Board of Regents is the coordinating body for all levels of education in New York State, including higher, elementary and secondary. This function has roots going back more than two centuries, when King George II granted a charter for the founding of Kings College (now Columbia University). The Board of Regents grew out of this governing body, but despite this founding purpose, in the modern era the Regents have been much more closely focused on elementary and secondary education. In contrast, most states have boards dedicated particularly to higher education, and the breadth of the New York State Board of Regents role is unique in the nation.

The Regents are constitutionally intended to be an independent, autonomous body, and are considered to be nonpolitical. Members of the Board are elected by the Legislature through a joint resolution of both houses, although in practice the selection process is controlled by the Assembly, given their greater number of representatives. There are sixteen members of the Board from twelve

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[5]Because of the overlap between fiscal years, the increased aid payments could be paid out of appropriations in the succeeding state fiscal year (1999-2000) and still be within the 1998-99 academic year.

judicial districts and four at-large seats; members serve without pay, and are elected for five-year terms, which generally overlap. A Chancellor is chosen by the board from among the members. When a vacancy occurs, dozens of candidates may be interviewed by the Legislature and the selection is generally made by the Assembly leadership.

For post-secondary education, the Regents have the roles of approving new campuses and academic programs, accrediting curricula, periodically reviewing degrees and other programs, and performing a statewide planning function (described in a succeeding section). Although they have broad powers over programs, they do not have any budgetary authority. The Regents are served by the State Education Department operating under the Commissioner of Education, whom they appoint, and their post-secondary responsibilities are executed through the Education Department's Office Of Higher and Professional Education.

In addition to assisting the Regents in their program review and planning functions, the Education Department's Office of Higher and Professional Education has the important function of accumulating and publishing most of the financial and program data for higher education in the State. It also administers the Higher Education Opportunity Program (HEOP) for independent colleges and universities. Most student aid programs, however, were removed from the Education Department's domain in the early 1970's, and have since been administered by the Higher Education Services Corporation (HESC), which is under gubernatorial control.

Public and Private Sectors

The two public university systems are the State University system (SUNY), including 34 state-operated campuses and 30 community colleges, and the City University system (CUNY), including 10 senior colleges and 6 community colleges. A state financial takeover following New York City's mid-1970's fiscal crisis has made CUNY essentially equivalent to the State University system in funding. That is, the senior colleges are funded by a combination of state revenues and tuition (plus other campus-generated revenues), but the community colleges are funded in part by a local government contribution.

SUNY is governed by a 16-member board of trustees; 15 are appointed by the governor, subject to Senate confirmation, and there is one ex-officio student representative. State-operated institutions have local campus councils that are primarily advisory, but the community colleges have true local boards of trustees (partially chosen by the local governments which help to fund them). CUNY's board is composed of 17 members, 10 appointed by the governor and 5 by the mayor of New York City (both are subject to Senate confirmation); two ex-officio members represent students and the faculty (the faculty member is non-voting).

Independent institutions are governed by their own boards of trustees. They are collectively represented by the Commission on Independent Colleges and Universities (CICU), which serves as an advocacy group, and also has some statutory responsibilities relating to the currently prescribed statewide planning process. There are 144 independent institutions, 108 of which are represented by

CICU. Proprietary Schools are another type of private institution distinguished from independent institutions in that they are for-profit enterprises. Historically they are primarily trade schools. They have their own boards and are represented by a statewide association.

Statewide Planning

A central planning role for higher education is intended to be fulfilled by the Board of Regents through a process that includes the creation of a statewide plan and approval of system-wide plans for SUNY, CUNY and the independent institutions.

It is widely believed that current practices have not successfully ensured that high standards are achieved at all institutions.

There is also a master plan amendment process for new programs, campuses, or levels of study at individual institutions which is theoretically and statutorily linked to the statewide planning process, although in actuality the link between the two processes is very tentative. The master plan amendment or program registration process is essentially the procedure in place for regulatory review and quality control of academic programs, and there are questions about its effectiveness, as well as its uncertain relationship to the statewide plan.

Although the Regents Planning Process is widely considered to be ineffective, it remains the only process that seeks to articulate statewide goals and assess the State's progress in meeting them.

The statutorily described statewide planning process requires the Regents to define and differentiate missions and objectives of higher education generally and also those of specific institutions; identify needs, problems, societal conditions and the interests of the State; evaluate program effectiveness and optimize the use of resources; and develop a plan to meet the needs and problems identified. The plan is to set goals, describe the time and resources required to meet those goals, and establish priorities. The State and City university systems and independent institutions also participate by submitting their own master plans, which the Regents review and incorporate in the statewide plan.

Although the statewide plan statutorily requires gubernatorial approval to take effect for the public university systems, the 1988, 1992 and 1996 plans have actually never been acted upon. This inaction reflects a variety of factors, including the tension in recent decades between the executive and the Regents. The current governor, for example, called for elimination of the Regents planning function, but a compromise resulted in lengthening the process from four to eight years. Although the Regents Planning Process is widely considered to be ineffective, it remains the only process that seeks to articulate statewide goals and assess the State's progress in meeting them.

The ambitious planning goals outlined in statute, however, are far from being met in the current planning process. The most recent statewide master plan, for example, is no more than a nine-page outline of goals and objectives. As positive as the goals and objectives expressed are, the document contains little more than broad rhetoric: there is no detailed plan accompanying it, nor is there any establishment of priorities or real description of the method, time or resources required to meet the goals expressed.[6] The 1996 plan, unlike earlier plans, even lacks basic enrollment projections, without which it is difficult to conceive how needs can be assessed.

The current dispute over whether the CUNY remediation and admissions policy change is even subject to the Regents approval is also illustrative. The new policy is expected by all sides to significantly change the number of students attending CUNY and their distribution between senior and community colleges, and also to have a large impact on the University's finances. However, the City University, and both the Mayor's and Governor's Offices have all indicated that they do not believe this change is subject to review by the Regents. A major shift in mission for a public university system would certainly seem to be something that should be decided within the context of a statewide planning process. That such a basic disagreement exists over the current planning function clearly demonstrates that changes are necessary if a more strategic, rationally-based approach is to be achieved.

Opinions vary as to why the planning function originally envisioned has failed so dismally. In part, this breakdown has occurred over time due to a lack of interest in the plans and acceptance of the process by the State's political leadership. The lack of a strong relationship between the Regents and the executive is clearly a factor in this trend, but it is also true that the independence of the Regents is seen as a strength by many. The lack of staffing in the Education Department is often mentioned as an obstacle to preparing effective and comprehensive plans. However, there is also a view that a statewide planning process should not attempt to be overly specific or prescriptive, because needs are best served by the competition and innovation available among the many individual institutions.

Lastly, it has been suggested that tension between the public and independent sectors and brought to bear on the planning process tends to work against a highly specific plan. However, this dynamic itself is fostered by the environment in New York State that puts the sectors in direct competition for resources, which occurs in part because there is no meaningful plan to define the respective roles of the sectors.

Beyond the planning function, there are also strong criticisms of the Regents record in overseeing education quality, including program registration, accreditation and other processes. It is widely believed that current practices have not successfully ensured that high standards are

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[6]The plan can be obtained from the Education Department's Office of Higher Education, or viewed on their web site: http://www.higher.nysed.gov/ohpe/st_plan.htm

achieved at all institutions.[7] For example, the findings of the Regents Task Force on Teaching make it abundantly clear that there are substantial shortcomings in teacher education programs at some schools.[8] Given that such problems were found in teacher education, it is reasonable to conclude that problems also probably exist elsewhere under the current system. A review of this issue is beyond the scope of this report, but it is one of many issues that must be undertaken in a comprehensive reevaluation.

Perhaps the most prominently mentioned cause of failure of both the planning and oversight roles is a lack of focus on higher education issues by the Board of Regents itself. It may in fact be the case that the breadth of the Regents role is simply unworkable in its current form in the modern era. The broad role is seen as a strength by some, however, as it should in theory allow for better articulation and coordination between educational levels.

The finding that the Regents have not been as effective as they might has been a recurrent theme in reviews of higher education in New York State, although studies have differed on the root causes and in solutions advocated. The Bundy report in 1968, for example, concluded that, "While the Regents posses fully adequate authority to plan and coordinate higher education in the state, public and private, this existing authority is not vigorously exercised."[9] The Keppel report in 1973 found that the Regents role should be strengthened by adding a subordinate statewide planning council for post-secondary education and by having the Governor nominate members to the Board Regents.[10] A more recent study found that the Regents effectiveness in governing higher education suffers from the breadth of their role overall:

> *The Regents broad responsibilities for elementary and secondary education and the pervasive problems in that area severely limit the time, energy and interest that [they] can devote to higher education. Unlike higher education agencies in other states, the Regents have not initiated proposals for higher education in many years.*[11]

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[7]The Regents are currently seeking to modify their status as an accrediting body, essentially reducing it to cover only 19 institutions that identify them as "gatekeeper" for purposes of federal student financial aid. At a recent meeting of the Regents higher education committee, it was acknowledged that the current accreditation procedures provide only a minimal review of programs.

[8]*Teaching to Higher Standards: New York's Commitment*, NYS Education Department (July 16, 1998).

[9]*New York State and Private Higher Education*, Report of the Select Committee on the Future of Private and Independent Higher Education in New York State, January 1968, page 36.

[10]*Higher Education in New York State*, A Report to Governor Nelson A. Rockefeller from the Task Force on Financing Higher Education, 1973.

[11]*State Structures for the Governance of Higher Education — New York State Case Study*, Patrick Callan and Frank Bowen, prepared for the California Higher Education Policy Center, Spring 1997; pages 26.

Independence versus Executive Direction

The current governor has criticized the Regents higher education planning role and even campaigned for the elimination of the Board. He is not alone, however, in resenting the independence of the Regents. Going back through several administrations there have been various proposals to transfer higher education functions from the Education Department and the Regents to the Higher Education Services Corporation (HESC), an executive agency under gubernatorial control.

The opposing viewpoint to the natural executive desire for greater control is that governance of education *should* be removed from direct political control. This fundamental doctrine has strong philosophical and historical roots in the United States, and is evident in a number of areas. In New York, it can be seen most prominently in the constitutional independence of the Regents, but also in the intent originally underlying the public university boards of trustees, and going all the way to prohibitions against political affiliations in local school board elections.

The underlying principle that education should be free from direct political control has been reaffirmed many times, especially as public funding and public institutions of higher education have gained in importance. For example, a major treatise on this topic produced by a 1959 committee stated the issue as follows:

> *[We are] unanimously agreed, as most thoughtful citizens are, that education must be free from political interference and from external controls which intrude on educational policy ... To enable the state colleges and universities to discharge their responsibilities, both law and custom have traditionally assigned to these institutions a wide measure of independence.*[12]

This principle is particularly salient given the recent controversies and perceptions surrounding the State's two public university systems and their boards. Although the trustees of both systems are appointed by elected chief executives (the governor in the case of the State University and the governor and the mayor in the case of the City University), it has long been the tradition that the executive role should be limited to appointment of persons well qualified for leadership, with subsequent involvement being very limited. It appears that this pattern is changing, however, and there is a widespread belief that political influence is being exercised in an inappropriate fashion over recently appointed trustees.

In the recent debate over remedial education at CUNY, for example, it was very clear that the actions of some trustees were being driven by the explicit direction of outside politicians. At one point in the discussion, a compromise plan was presented by the chair but then abruptly withdrawn when the Mayor objected to it as being too weak. The CUNY Faculty Senate has even requested that

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[12] *The Efficiency of Freedom*, Report of the Committee on Government and Higher Education, The Johns Hopkins Press: Baltimore, 1959, pages vi & 3.

the State Board of Regents undertake an investigation of the CUNY trustees for appearing to be unduly influenced by outside parties and failing to exercise independent representation of the University's interests.[13] The SUNY trustees have also been sharply criticized for their silence over executive cuts and vetoes of restorations to their university system.

Although no system is perfect and there are advantages to executive nomination of trustees, some states use nominating boards or screening committees to ensure that high quality candidates are identified and also to provide a degree of independence for public university governing boards.[14] The condition of public university trustees being either directly or indirectly in the employ of appointing authorities (i.e., mayors or governors) has also been raised as a potential conflict: the assumption is that such a relationship prevents trustees from operating in an independent fashion.

Toward A Solution

Many educators agree that a dramatic change in approach is necessary and that a statewide dialogue on higher education issues should occur. There are a number of suggestions on how this could be brought about. One method is to form a statewide commission, task force or several such groups to review policies. These group(s) could be composed of governmental interests, the business community and higher education leaders from public and private institutions. It is also generally agreed that changes in New York State's post-secondary governance structure should be considered.

As background for this report, a number of meetings and discussions have been held with higher education leaders and experts. Given the great diversity of roles and interests represented in the persons consulted, a surprising degree of unanimity emerged in their observations. The overwhelming consensus is that the absence of a policy-based approach is currently the most serious problem confronting higher education in the State.

Following are some of the comments of higher education leaders on this topic:

- Policy discussions should begin with a basic examination of the role and mission of our colleges and universities — you have to agree on the basic objectives before State funding and programs are reviewed.

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[13]Memorandum to the Chancellor of the New York State Board of Regents from Bernard Sohmer, Chair of the University Faculty Senate, July 2, 1998.

[14]See, for example, *Policies for Improving Trustee Selection in the Public Sector (AGB Occasional Paper No. 13)*, and *Changing State Policies to Strengthen Public University and College Trustee Selection and Education (AGB Public Policy Paper Series No. 95-2)*; both are available from the Association of Governing Boards of Universities and Colleges, One Dupont Circle, Washington DC, 20036.

- There needs to be a more systematic relationship between higher education and the business community.

- The policy leadership role originally envisioned for the Board of Regents in higher education isn't working — it's time to go back to the drawing board and develop a new approach.

- Certain activities should be above political considerations and higher education is one of them. Changes should be considered in the manner appointments are made to public higher education boards, such as using nonpartisan nominating commissions to generate candidates.

- Support for public universities and their tuition charges should be approached on a more rational basis, with the current pattern of abrupt shifts eliminated.

In addition to voicing concerns that the policy vacuum and the associated fiscally-driven funding cuts have created a number of problems, many observers envision improvements that could be accomplished if a policy-based strategic approach were effectively pursued.

- In addition to their basic mission of education, the State's colleges and universities should be regarded as drivers for economic development. With the support of leaders from the business community, this discussion could move beyond rhetorical support, to developing the specifics of how economic contributions can be maximized.

- A coherent and coordinated technology strategy could help the State to become more competitive. For industries such as telecommunications and high technology the potential opportunities significantly outnumber qualified applicants. The State's future is in developing a highly skilled, technology-oriented workforce, and business should be integrally involved in designing programs and curricula to meet these needs.

- New York State and its institutions should be able on a net basis to import rather than export students. An affirmative plan in this area would help to further the State's position as an learning hub and intellectual/technological center.

- Demographic projections indicate a significant increase in numbers of high school graduates over the coming several decades. Given the growing importance of education in an information-age economy, the increased need for college seats may be dramatic. A plan should be in place to ensure that these seats will be available in the areas they are needed.

- Maintaining broad access to higher education has always been a primary goal in New York, but a more specific consensus should be formed about how this is best be operationalized. This issue should also be reviewed in the context of the changing student population, including increasing numbers of part-time adult learners and recent immigrants.

- Efforts should also be made to attract and retain the most talented students and faculty to New York State institutions — the State should not export the best and the brightest.

- Existing accreditation and oversight procedures may not be successfully ensuring quality of programs. Performance measurement techniques should be better utilized, although they should account for the different populations served among the institutions. Performance budgeting techniques should also be considered where they can be used effectively.

Accepting the necessity of reviewing policies comprehensively, the question becomes how to do it. The area to be reviewed is so vast that a truly comprehensive examination might require more than one study effort or group. To be successful, a task force should be broadly supported and include representation from the business community and both the public and independent higher education sectors. Ideally, a task force should represent a consensus-seeking activity and receive a commitment from executive and legislative leadership. Adequate financial and/or staff support should also be provided to carry out research responsibilities. The experience with previous commissions is that the greater the commitment from state leaders going into the process, the greater is the likelihood that the report will be influential.

There are currently policy evaluations ongoing in a number of areas, including reinventing efforts at both public university systems, student aid studies and many other projects at academic institutions, advocacy groups and state agencies. This paper is not intended to disparage any of these activities or argue that they should not be taking place. Rather, it is to encourage a more comprehensive approach that seeks to establish a consensus among the various sectors and interests and the parties to the legislative process. Despite the many activities currently taking place, most are being undertaken by a single agency or interest, and none are truly comprehensive in nature.

However, one study currently underway merits particular notice. A temporary state commission was established in the 1998 budget legislation to study student aid programs, and a distinguished panel has been named, including former State University Chancellor Clifton R. Wharton and former Federal Reserve Board Chairman Paul Volcker as co-chairs. This group is to study state student aid programs and develop alternatives, reporting by March 31, 1999. Student aid programs are a central element of state support for higher education and full consideration of this issue necessarily involves a broader review of higher education issues. It should be acknowledged, however, that this Commission is primarily a creation of the State Senate, and ideally such a group would have a broader commitment including that of the other participants in the legislative process.[15]

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[15]Although established in legislation as a temporary state commission, the panel was chosen and announced exclusively by the Senate. Another section of the budget legislation (added by the Assembly) calls for a different study, dealing with part time tuition assistance, to be carried out by the Higher Education Services Corporation. It should also be noted that the $250,000 appropriation made to support the Senate's recommended commission was identified as a 1998-99 budget veto by the Executive. The official veto message, however, was never issued (as was the case for a number of other items initially identified as being vetoed) — it is not known whether this funding was left to stand intentionally (after a change of mind) or through accidental omission.

Nevertheless, a fundamental reevaluation of student aid is long-overdue for New York, and the composition of the panel examining this issue gives reason for optimism that a significant study will ensue, hopefully leading to a broader consensus on student aid. This report advocates explicitly for a policy-based approach, and the type of study promised by the commission described above.

It is acknowledged, however, that in the current political environment it will be difficult to obtain a consensus from State leaders, not only on a shared vision for higher education, but even as to whether there should be a reexamination of policies, and if so, how the examination should be conducted and by whom. Perhaps the greatest impetus for a comprehensive reevaluation would be for public pressure to build on the issue. The higher education community itself could also be instrumental, if a unified call were made. Business leaders may be even more important in calling for such a review, as they are in some respects the ultimate consumers of higher education, because they hire the graduates.

Comptroller's Recommendations

The Comptroller has made a commitment to pursue research on higher education issues and to support the development of a comprehensive long-term plan for higher education in New York State. This has resulted in a number of research activities within the Office of the State Comptroller and also in extensive consultations with many leaders from all sectors, groups and interests in higher education. As a result of this process, the Comptroller has identified principles and goals to strive for in the development of a comprehensive higher education plan.

New York State's goals for its higher education policies should be to:

- Maintain broad access to post-secondary education;
- Foster economic development and greater productivity;
- Support quality public education, as well as a healthy private sector; and,
- Ensure that planning, governance and management practices all serve to maximize the effectiveness of state investments and uphold high quality standards.

Building upon these goals, and with the benefit of consultation with educational leaders, several major recommendations for action have been developed. These recommendations are general in nature, because in most areas further detailed study will be needed. Moreover, for reform to be successful, a consensus must emerge. A single actor in the process cannot dictate what that consensus will be, and it is more productive to discuss what avenues should be pursued. The Comptroller's recommendations are twofold, as follows:

- ✓ **There needs to be a statewide dialogue on higher education issues and a comprehensive reevaluation of state policies. A task force or several task forces should be established to accomplish this.**

- ✓ **In conjunction with a consensus-seeking task force approach, New York State's permanent governance systems for higher education should be reformed. Changes should include:**

  - — **Establishment of a new higher education coordinating board to either replace or supplement the Board of Regents higher education responsibilities.**

  - — **Nominating boards or screening committees should be used in appointing trustees of the State's two public university systems. Also, trustees should not concurrently be serving as employees of the appointing authority.**

A supporting section of this report describes the major higher education studies previously carried out in New York. These studies in the past formed the basis for the State's policies, and a central thesis of this report is that a similar effort is needed today, to return the State to a strategic, policy-based approach.

Permanent changes in governance are also necessary, because even assuming the development of a new statewide consensus, there needs to be a process in place to more effectively oversee higher education, report on progress toward goals or the lack thereof, and to help guide state policies as conditions change. This report has described shortcomings in the current governance process, including the lack of strong central leadership and planning for higher education and the current controversies surrounding the public universities' boards of trustees.

A New Coordinating Board for Higher Education

For many years, the statewide planning process has been criticized by both governmental and higher education leaders, as have other aspects of the Board of Regents oversight and leadership responsibilities for higher education. All of the major studies carried out in past decades have recommended changes in this area.

This report recommends that a new higher education coordinating body be established, either replacing or substituting for the Regents current responsibilities. It is acknowledged that developing a new model will involve some very difficult political control issues, and the recommendation made in this report could be implemented through a variety of models.

Both the Heald and the Keppel reports (described in the succeeding section) recommended a permanent council of higher education advisors, and the new governance structure proposed in this report is essentially based on their original recommendations. This idea has often been brought up

in the decades since those reports as a means of improving the State's governance structure, and it is one supported by many educational leaders.

As noted earlier, some have criticized the Regents for being disconnected with political leadership, whereas others see this independence as a positive factor. A cooperative appointments process for the new body this report recommends would be an appropriate way to bridge that gap. For example, the Heald report envisioned a group *jointly* appointed by the Governor and the Regents, with members serving four-year terms coinciding with gubernatorial terms. The Keppel report (although referring to the Regents themselves) recommended nominations made by the Governor and subject to the confirmation of both the Senate and the Assembly. Both of these ideas should be considered in the development of a cooperative appointment process for the higher education coordinating body recommended here. Such a cooperative process can provide a stronger linkage to political leadership in the executive and legislative branches, while still preserving a healthy measure of independence and neutrality to partisan concerns.

Recent executive proposals have called for removing higher education responsibilities from the Regents and the State Education Department. The Comptroller's recommendation should not be considered equivalent to those proposals because it (i) does not favor simply removing the functions without substituting another process, and (ii) it explicitly argues that any new coordinating body should maintain a degree of independence, reflecting the same theory behind the current structure for the Board of Regents.

This recommendation does not specifically address the issue of staffing for the new coordinating board or statewide higher education functions generally and it should not be interpreted to advocate eliminating the functions of the State Education Department's Office of Higher and Professional Education. A strong statewide higher education governance and oversight system must be adequately staffed and independent, and this issue must be considered in conjunction with the design of a stronger coordinating body.

Public University Trustees

This report has also described several of the current problems concerning the boards of trustees for both public university systems. Many observers have felt for some time that the process for selecting public university trustees can and should be improved. Screening committees or nominating boards are a method that can help to identify the best available candidates for service and also to provide a degree of independence for public university governing boards.

In 1980, a national commission chaired by former North Carolina Governor Robert Scott, and sponsored by the Association of Governing Boards of Universities and Colleges, issued a report describing how trustee selection could be improved. Their primary recommendation was that appointments should be made from a list of candidates submitted and carefully screened by a special

committee.[16] Since that report, Kentucky, Massachusetts and Minnesota have enacted statutory reforms creating nominating committees for their trustee selection process.

Nominating panels have been used successfully in the past in New York, both at the City University and the State University, although they were administratively constituted by the executives then making appointments (i.e., rather than being statutorily required). Having a permanent nominating board process would ensure a systematic approach to identifying the most qualified candidates available. It would also provide new trustees with a measure of independence, because they would have been appointed with the approval of a professional panel as well as the appointing authority.

Another issue to be considered is whether trustees can be expected to independently serve as guardians of their institutions if they are either directly or indirectly in the employ of the appointing authority (i.e., as a governmental or public authority employee).

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[16] *Changing State Policies to Strengthen Public University and College Trustee Selection and Education (AGB Public Policy Paper Series No. 95-2)* Association of Governing Boards of Universities and Colleges, One Dupont Circle, Washington DC, 20036.

Supporting Sections

Historical Review of Higher Education Studies

Higher education in New York State has in the past been guided by an important series of task force reports. These included the Heald report in 1960 (associated with the creation of the modern State University system), the 1968 Bundy report (leading to the provision of direct institutional aid to independent colleges, or 'Bundy' aid) and the Keppel report in 1973 (including a focus on expanding student aid which led to the creation of the Tuition Assistance Program).

Although New York is not without policy studies in the past several decades, none have been viewed with the same regard as the reports noted above, each of which changed the landscape of higher education in New York State. Persons familiar with the debate at the time these reports were issued point to the stature of the commission members and the commitment from State leaders going into each study as factors behind their success. Evaluated in terms of their result in building a consensus for change and driving decisive action, there have not been any comparable studies in the past twenty-five years. The 1993 report of the Regents Commission on Higher Education, for example, although providing a good comprehensive policy discussion, did not benefit from any real commitment or participation from political leaders and was as a result largely ignored. A description of the major studies noted above follows, in chronological order.[17]

Heald Report (1960)

This report was jointly commissioned by the Governor and the Board of Regents and was the work of The Committee on Higher Education, chaired by Henry T. Heald (president of The Ford Foundation). The other two members were a former cabinet member and the president of the Carnegie Corporation, and the Committee was served by an impressive array of consultants, including prominent national experts. This report is most widely credited with forming the basis for the expansion of the State University system, which grew to its modern form in the decade that followed.

Drawing upon expert consultants, the Committee's report provided detailed projections of enrollment growth and a projected increase in the need for college-trained workers; the analysis also made projections about how much of this increased demand could be accommodated by the private sector and how much would need to be fulfilled by various categories of public institutions. Recommendations included converting the State's teacher colleges to liberal arts institutions, expanding the community college system and establishing graduate-level university centers.

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[17]This listing is not exhaustive, and other reports were issued during this period, including: *Report of the State Task Force on the Financing of Higher Education in New York State* (February 14,1972) and the *Temporary State Commission on the Future of Postsecondary Education* (March 31, 1977). Also, prior to this period, the founding of the State University system in 1948 followed the report of the Temporary Commission on the Need for a State University in New York State, chaired by Regent Owen D. Young.

The Heald report was comprehensive, and its recommendations went far beyond public university expansion. For example, the importance of private colleges and universities was acknowledged and the Committee recommended the establishment of an aid program for private institutions based on the number of degrees granted. The report also recommended increased student aid, including scholarships, needs-based assistance and reduced-cost loans, that students be encouraged to attend throughout the year (including the summer), and that degree credit be offered for independent study and other outside learning through "Regents examinations" at the college level. Concluding that there was a need for more trained health workers, the report recommended a variety of specific changes, including the establishment of new medical and nursing schools.

On the topic of governance, although it approved of the broad coordinating role of the Board of Regents over higher education, the report noted that the Regents responsibilities should not overlap those of the State University Board of Trustees (apparently a problem at that time). It recommended a reallocation of tasks and a clarification of the Regents role regarding the public university systems, which it argued should be limited to review and approval on a continuing basis of a "Master Plan" for the development of those systems.

It was also proposed that a permanent Council of Higher Education Advisors be established to review and guide policy as needs changed. This group was to supplement rather than supplant the Regents higher education responsibilities and was to be appointed jointly by the governor and the Board of Regents for four-year terms coincident with gubernatorial terms. It was envisioned that the Council be composed of outstanding civic, cultural and economic leaders, and served by a small professional staff, with their role being to "observe, assess, review, and recommend ... what ought to be done to keep our system of higher education in line with our needs."

The Heald report was truly a seminal work, and it called for broad changes which were vigorously pursued by the State's political leadership. In essence, the study provided an outline for action that defined the agenda for the decade and a half following the report. It is noteworthy that virtually all of the Heald recommendations were eventually acted upon favorably in some form, with the exception of the establishment of a Council of Higher Education Advisors.

Bundy Report (1968)

Formally entitled *New York State and Private Higher Education*, this report was produced by a five-member committee jointly appointed by the Governor and the Board of Regents; the group was chaired by McGeorge Bundy, a prominent presidential advisor in two administrations. The Committee was formed to review the State's relationship with private and independent institutions because — although the Heald report had not neglected the private sector — the expansion and upgrading of the public university systems had been the focus during the years in between the two reports, and the private institutions were widely perceived to be facing an immediate financial crisis at that time, both in New York and nationwide.

The Bundy report's primary recommendation was that there should be a program of direct institutional aid for independent institutions, paid on the basis of number of degrees awarded, by level and type of degree, and representing a small percentage of the cost of providing such a program. This proposal built on a recommendation included in the Heald report, but it was discussed, justified and delineated in much further detail, and the direct aid program that was enacted following the report is known by the name of the chair. In concert with the call for new aid, the Bundy report also recommended strengthening the Regents oversight of private institutions through a number of planning improvements and additional staff and funding for the higher education function within the State Education Department.

Although it advocated increased aid for private institutions, the Bundy report was by no means negative toward public institutions. The transmittal letter noted the remarkable progress of the public systems during the preceding decade and stated that "the progress of public institutions should be energetically sustained" and warned against "destructive rivalries" between the sectors.

Keppel Report (1973)

This 1973 report was the work of a gubernatorial task force on the financing of higher education, and was headed by Francis Keppel, a former United States Commissioner of Education. Although the group's charge was broad, and their report included major recommendations on public university tuition and the Regents governance role, the strongest focus was on student aid.

The Keppel report was premised on a proposed "Student Bill of Rights" which, in the words of a recent study on TAP, "included principles or hopes that are equally valid today and some of which still form the basis for discussion of student financial aid."[18] These principles included:

- Students from low-income families should receive support in the form of grants, with loans and work available to cover all costs for attending a public or private college, including tuition, fees, books, room and board, and a reasonable allowance for personal expenses.

- Students with incomes making them ineligible for grants should, contingent on the family's ability to pay, be eligible for support from subsidized loans and work. All families regardless of ability to pay should be guaranteed loans to finance a portion of their costs.

The reasoning was that the most advantageous approach to aiding higher education was to create a system in which funding allocation decisions were made by students. Aid to students, in other words, as an indirect way of aiding institutions, was seen as preferable to direct support. This issue was raised in the context of the national debate at the time over whether federal assistance should be provided as "capitation aid" going directly to public and private institutions, or as student aid.

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[18] *Report of the Temporary Task Force on the Tuition Assistance Program*, New York State Higher Education Services Corporation, (December 1996).

Building on the principles expressed in the Student Bill of Rights, the report provided a detailed outline for structuring student aid, and also recommended coordination of state student aid with federal aid programs (major new federal funding was under discussion at the time). It was thought that student aid, both state and federal, would be the main source of new funding for both students and institutions. The task force had found that the State's student aid programs at the time were too numerous, complex and variable in their eligibility standards, and were as a result both confusing to students and inequitable.

New York State's Tuition Assistance Program (TAP) was enacted in 1974 as a result of the attention drawn to the issue by the Keppel task force. Although the TAP program did not take the specific shape of the report's recommendations in all respects, particularly since TAP is based on tuition rather than total costs, the policy focus was on aid that follows student choices to institutions, both public and private. It should also be noted that a new federal aid program (the precursor to today's Pell grants) was enacted in the period between the Keppel report and the enactment of TAP. To a certain extent it was felt that TAP could be structured to cover only tuition because the new federal aid program was based on total costs.

The other major recommendations of the group concerned public university tuition and the State's governance system. The report urged uniform tuition across public universities in the State (which did not exist at the time). This recommendation included the City University of New York, which did not then charge any tuition for full-time resident undergraduates; increased financial support from the State for CUNY was also urged. The task force argued that tuition rates should be uniform across public institutions, but should vary by level and type of study, with lower tuition available for the first two years. It recommended that these rates be based on a percentage of overall costs, thus providing for an institutionalized, rational basis for setting public university tuition.

On governance, although the report found that higher education should remain under the Board of Regents, it called for a new group within that structure to coordinate higher education issues and it also called for changes in the method of choosing Regents. Finding that cooperation among the Regents, the governor and the Legislature should be improved, the Keppel task force recommended that Regents be nominated by the governor and subject to confirmation by both houses of the Legislature. It also urged that the length of the term for Regents be substantially reduced (terms were then fifteen years, today they are five).

The Keppel task force found that post-secondary education because of its size and complexity "requires the full and continuous attention of a new, broadly representative planning group under the aegis of the Board of Regents." It called for a State Planning Council for Post-Secondary Education with members appointed by the governor with the concurrence of the Regents and the Senate. This group was essentially to take over the Regents higher education functions, and provided an enhanced planning and policy review process, and it was to report to the Regents, as well as the governor.

Student aid was dramatically increased as a result of the Keppel task force, although the issues they raised have never been completely addressed and the TAP program today, after many years of erosion has drifted further from meeting the goals expressed in the "Student Bill of Rights." Nevertheless, the report remains a ground-breaking work on the topic of student aid, and its goals continue to guide present day discussions on the topic. Many of the other recommendations of the group were implemented, including aspects of their tuition recommendation and the changes in the funding of the City University system (which were also spurred by New York City's mid-1970's financial crisis).

The Regents Commission on Higher Education (1993)

This group and its study were commissioned by the Board of Regents and funded by foundation grants and gifts from private corporations. It was chaired by Victor Riley, then the Chief Executive Officer of KeyCorp, and was intended to address a "developing crisis in education" driven by reductions in state funding.

The Commission's report was entitled *Sharing the Challenge*, and it did very effectively provide a comprehensive discussion of the issues then facing higher education, as well as describing the importance of this resource. However, except in specific areas calling for restoration of recent cuts in state funding, the report's findings and recommendations were very general in nature.

Many of the prescriptions for change were almost completely rhetorical. For example, the report stated that "higher education and the State must provide leadership for a major restructuring of the way in which New York delivers and supports higher education," and yet it made no specific recommendations for governance changes or changes in funding structure. The report also recognized that resources from the State and from students and their families were likely to be limited in the near term, and called for cost-effectiveness to become a goal sharing equal importance with access and quality. However, other than broad statements about rethinking at all levels, new uses of technology, and better collaboration and resource sharing, the report provided no strong direction as to how greater cost-effectiveness could be achieved.

Sharing the Challenge was very specific in calling for restorations of the cuts being made at the time. For example, it recommended restoring Bundy aid to statutory levels, restoring TAP by returning to the funding schedule used in 1990, and in restoring some form of merit scholarships (the Regents scholarships had recently been eliminated). In other areas, however the calls for restoration were more general, such as providing resources to the public universities to allow them to hire more full-time faculty, stabilize student/faculty ratios and protect investments in physical facilities.

As noted earlier, this Commission was unilaterally formed by the Board of Regents, and the effort was undertaken without the support of the executive or legislative branches. Given this lack of commitment, it is difficult to imagine that the report would in any event have had a dynamic outcome, but the lack of specificity in most of the policy recommendations was also a great shortcoming. This aspect stands in sharp contrast to the prescriptiveness of the major reports preceding it.

Background Information, Facts and Figures

State Spending for Higher Education

Overall, New York State now spends about $3.7 billion annually from taxpayer revenues for higher education. Following are the components of this expenditure, based on appropriations for the 1998-99 state fiscal year:

Total	$3.7 billion
SUNY (state-operated campuses)	$1.2 billion
CUNY (senior colleges)	$570 million
Community Colleges (SUNY& CUNY)	$390 million
Capital and Debt Service (SUNY&CUNY)	$675 million
Tuition Assistance/Scholarships (mostly TAP)	$670 million
Opportunity Programs	$95 million
Bundy Aid (independent institutions)	$45 million
Other (technology, administration, misc.)	$70 million

More than three-quarters of state support goes to public institutions. The figures above provide a short and simple list of major *state* spending supported by state tax revenues; revenues from tuition and fees or local government taxes are not included.[19]

New York vs. the Nation

On a per capita basis, New York State spends $157 annually on higher education, 15 percent less than the national average of $185, and New York ranks 41st among the states.[20] This lower than average expenditure results in large part from the relatively high proportion of independent colleges and universities found here.

In New York State, only 57 percent of students attend public institutions compared to 78 percent nationally.[21] Since public institutions are more heavily funded by state tax dollars, New

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[19]These figures differ from those presented in comprehensive accounting reports which commonly show all state appropriated funds, including tuition payments and other campus generated revenues at the State University.

[20]Based on the *Grapevine* survey on 1997-98 state appropriations for higher education published by Illinois State University, and U.S. Census Bureau population estimates for 1997. Data do not include state support for capital or debt service, and some miscellaneous programs, such as funding for technology initiatives.

[21]Based on U.S. Department of Education data for fall 1995 full-time college enrollments, as reported in the *Chronicle of Higher Education* August 29, 1997 Almanac Issue.

York's proportionally lower usage of them compared to other states is reflected in a lower per capita expenditure. The other states with a similarly high proportion of private schools are all found in the northeast, and all rank below New York in per capita appropriations; they are Massachusetts, Rhode Island, Pennsylvania, Vermont and New Hampshire.

The trend in New York State's support over the past ten years is sharply down compared with the rest of the country. Nationally appropriations have increased by 44 percent over the past ten years, slightly outrunning inflation, which has been about 40 percent. New York State in contrast has actually *reduced* appropriations over this period, with support declining by about 1 percent in nominal dollars, but by much more when the impact of inflation is considered. No other state in the nation has reduced appropriations, and almost all neighboring states, like the nation as a whole, have substantially increased support. Cuts in student aid, hikes in public university tuition, and a halving of direct support to independent institutions have all contributed to this decline.

Counting Issues

Although public university systems represent more than three quarters of state funding, the issue of how much we spend on these institutions is not a as simple as it might seem. There are often wide variances in figures presented because there are different accounting bases, time periods, and types of institutions. Although this occurs for quite understandable reasons, it can be a confusing situation or misleading if the figures are not placed in context. Figures provided for SUNY and CUNY are also often presented on a different basis, because SUNY campuses (other than community colleges) are considered to be state-operated institutions and CUNY campuses are not. That means that tuition and fees at state university campuses must be "appropriated" in budget bills, even though they really aren't *state* support in the common interpretation.

Q — How much is spent on SUNY?

A — Between $695 million and $5 billion, depending on how you count.

SUNY provides the best example of different ways to count spending. According to recent figures from State University System Administration, total revenues supporting SUNY state-operated colleges in 1996-97 were $4.3 billion, but after deducting all university generated income such as tuition, fees, hospital income and research, *state* resources provided only about $1.5 billion. That figure also includes indirect state support provided through student aid (primarily TAP) and direct support is about $1.4 billion. Ignoring the subsidy paid to university hospitals, fringe benefits, debt service and capital, the net state support for SUNY's core operating budget was $695 million. This array of choices in which number to use occurs even before community colleges are considered, which introduces further complexity. Most often when figures for community colleges are provided in summaries, they include only the state aid portion, but other times they include tuition, fees and support from local governments: on this basis, "total SUNY spending" tops $5 billion.

The difficulty in obtaining useful comparative data is a national, as well as a state concern. For example, the *Grapevine* figures on state appropriations used to provide the comparison above are generally considered to be the best interstate comparative data available on state support, even though they are estimates, not actual expenditures, and do not include capital or debt service.

Other data sources provide detail on all types of expenditures for higher education, but often these figures are neither comprehensive nor consistently reported across institutions, let alone across states. Comparisons and accurate figures on tuition, fees and on costs for different classes, levels and types of students are simply very hard to come by. Although the National Center for Education Statistics (NCES) of the U.S. Department of Education produces a wealth of data through its Integrated Post-secondary Education Data System (IPEDS), there are well-known inconsistencies among institutions in the way this data is reported and there is a substantial lag in its production. IPEDS is also a tremendously complex system, and outside of published reports it is very hard for anyone but an expert to go through the data.[22]

Tuition and Costs

The rising cost to attend college both at public and private institutions is a national issue. In 1997 Congress established a National Commission on the Cost of Higher Education, as an advisory group to review college costs, and the group issued its final report in January of this year.[23] The Commission warned that colleges risk "an erosion in public trust" if their charges continue to escalate above inflation and personal income increases, but the group rejected recent proposals for price controls or other government-imposed penalties for institutions raising their tuition too much. The Commission recommended a five-part approach to (1) strengthen institutional cost control, (2) improve available data and public accountability, (3) deregulate in some areas, (4) rethink accreditation procedures, and (5) enhance and simplify federal student aid. The report cites five-fold increases in tuition over the past 20 years at all types of institutions.

Over the ten-year period from 1987 to 1997, average total charges at a SUNY four-year campus have gone from $5,124 to $9,771 and at an independent four-year college the cost has gone from $11,272 to $21,363. The increases in total costs at both sectors are about 90 percent, in comparison to inflation at about 40 percent. Tuition and fees have been going up even faster than

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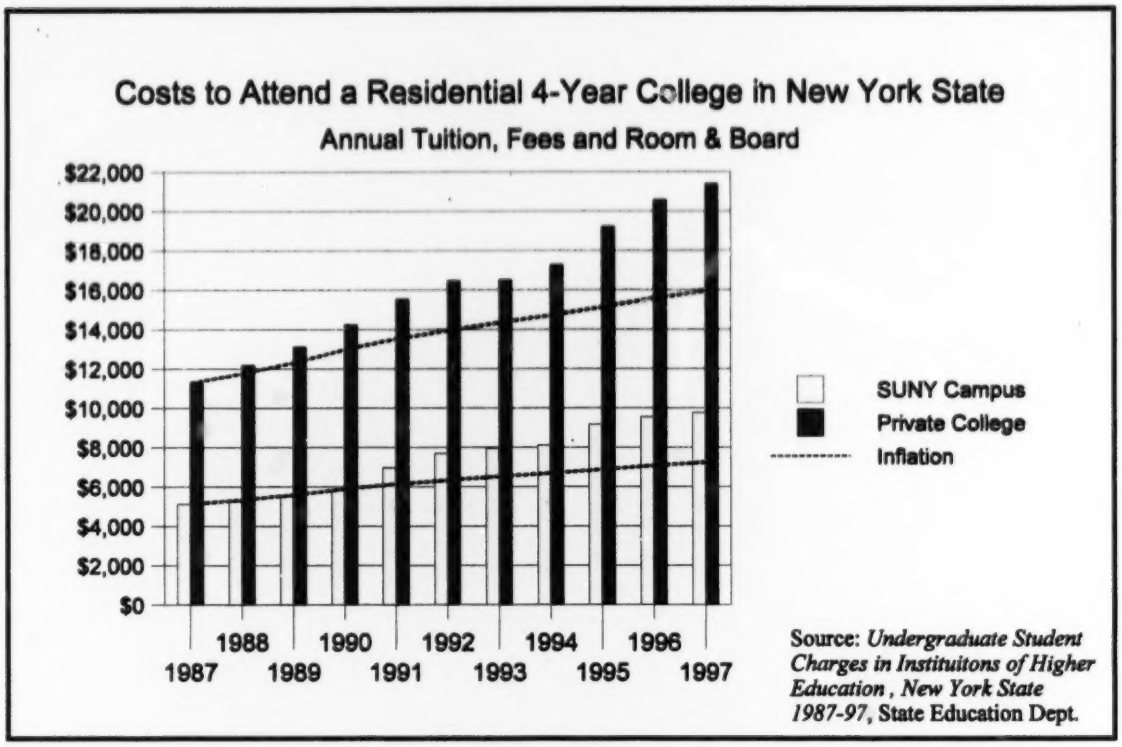
[22]These problems led the *National Commission on the Cost of Higher Education* to include improvements in the availability and usefulness of data as a major thrust in its recommendations. The group found that both policy-makers and the public need more useful, accurate, timely and understandable information on college costs and expressed concern about the "sheer amount of incomplete and outdated information available from academic and government sources," and that "there is no common national reporting standard to measure costs and prices." A series of implementing recommendations were offered; see *Straight Talk About College Costs and Prices, Report of The National Commission on the Cost of Higher Education*, January 21, 1998, Commission Recommendations, section II..

[23]*Straight Talk About College Costs and Prices, Report of The National Commission on the Cost of Higher Education*, January 21, 1998.

total costs, because room and board increases have not been as high as tuition growth. At community colleges tuition and fees have also gone up by about 90 percent.



New York's Diverse System: Public and Private Sectors

New York State benefits from a great diversity of educational institutions, both public and private. According to the most recent counts, there are more than one million students enrolled at the State's 261 post-secondary institutions, 57 percent at public and community colleges and 43 percent at private institutions. The private sector is composed of independent colleges and universities and proprietary institutions (designating the fact that they are for-profit entities).

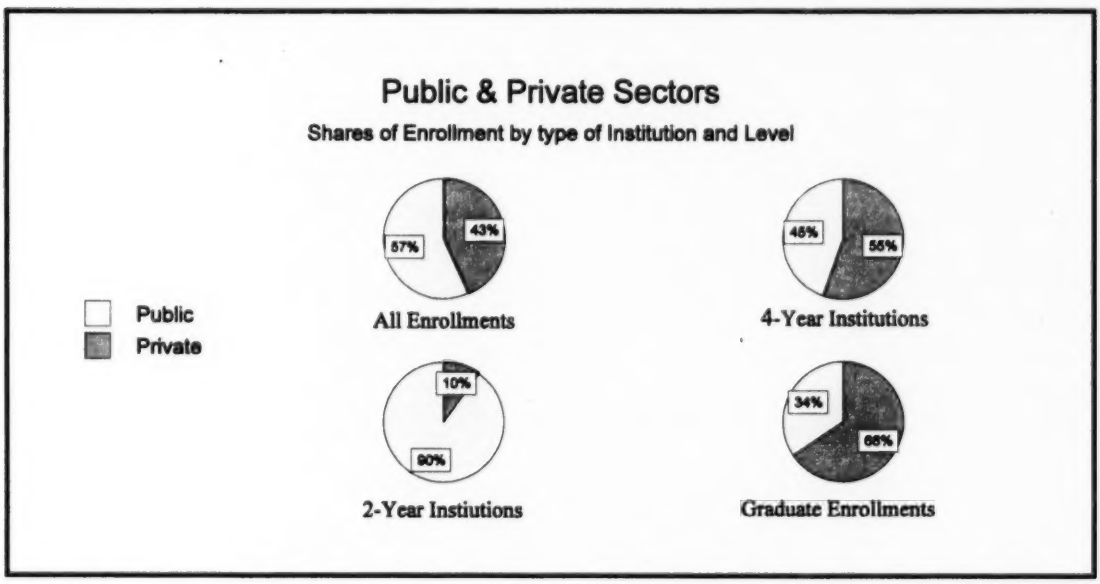
Proprietary institutions are largely trade schools and business colleges (such as Bryant & Stratton), but some of these institutions offer more general degree programs (such as Monroe College). Although the trend has not yet appeared in New York State, it is expected that proprietary institutions will increasingly begin to challenge public and independent colleges in the future. Nationally, the University of Phoenix is the foremost example of this trend, and it is also a pioneering institution in the area of on-line instruction.

The independent colleges outweigh the public sector schools in enrollment and degrees granted at four-year schools, whereas the public sector dominates the two-year market. However,

although they enroll a simple majority of students at 4-year campuses, independent institutions do not educate the majority of native New Yorkers, even at the four-year schools, because public institutions enroll much higher proportions of state-resident students.

SUNY and CUNY together educate the majority of state residents, particularly when community colleges are included. Recent data on "first-time, full-time students" show that among state residents, 68 percent chose public colleges and 27 percent chose independent institutions (with the remaining 5 percent going to proprietary schools). These figures do not include the nearly one-quarter of college-going state high school graduates who leave for out-of-state institutions, and "residence" in this context is residence at time of *entrance* to higher education. Unfortunately there are no statistics available on where student go *after* their education, but many stay to work and start businesses in the community where they went to school. Bringing out-of-state residents and dollars into the State has a very positive economic impact.

The independent sector dominates post-graduate education, with 66 percent of the enrollment statewide. Independent institutions award 55 percent of the State's bachelors degrees, but 70 percent of masters degrees, 64 percent of doctoral degrees, and 83 percent of first-professional degrees (primarily law and medicine).



New York State's Diverse System of Higher Education
Institutions, Degrees, Enrollments and other Data by Sector

	SUNY	CUNY	Independent	Proprietary	Total
Number of Institutions	64	19	144	34	261
Fall 1997 Enrollment	366,708	201,185	404,347	28,720	1,000,960
Sector Percentage Share	37%	20%	40%	3%	
4-year Institutions (or more):					
Number of Institutions	32	13	118	5	168
Fall 1997 Enrollment	189,566	136,825	397,635	9,270	733,296
Sector Percentage Share	26%	19%	54%	1%	
2-year Institutions:					
Number of Institutions	32	6	26	29	93
Fall 1997 Enrollment	177,142	64,360	6,712	19,450	267,664
Sector Percentage Share	66%	24%	3%	7%	
Degrees Awarded in 1995-96					
Bachelors (Share/Total #)	31%	13%	55%	1%	94,262
Associates	58%	16%	16%	10%	53,304
Master's	18%	12%	70%	<1%	45,354
Doctoral	28%	8%	64%	--	3,935
First-Professional	15%	2%	83%	--	7,654
NYS Residents Entering (94) (Share/Total #)	48%	20%	27%	5%	115,744
TAP Recipients as % of 1995 NYS resident enrollment	47%	67%	54%	91%	52%
Percent Minority (Black and Hispanic, 1994)	12%	52%	15%	41%	23%

SOURCE: NYS Education Department, Office of Higher and Professional Education, following publications: *Institution Count, Academic Year 199?-98; College and University Degrees Conferred, New York State 1995-96; College and University Degree-Credit Enrollment, New York State, Fall 199?; Residence and Migration of College Students, New York State Fall 1994; 199? Annual Report on State Student Financial Aid Programs; College and University Racial/Ethnic Distribution of Enrollment in New York State (Fall 1994).*

Independent Colleges and Universities

The independent sector itself is very diverse. New York State has two Ivy League schools (Columbia and Cornell), as well as a number of other institutions similar in tuition charges and name recognition (these include, for example, Colgate, Bard, Vassar, Hamilton, Sarah Lawrence, Skidmore, and Union). However, enrollment at colleges where tuition and fees exceed $20,000 annually represents only about one quarter of the independent sector.

The majority of the independent sector is therefore composed of other institutions. Although any distinctions drawn are somewhat arbitrary, there are a large number of colleges with tuition

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charges in the area of $13,000 that serve a population probably significantly less affluent than that found at many SUNY campuses. These would include colleges such as Marymount, Pace, Hofstra, Keuka and LeMoyne.

This distinction is drawn because there is a tendency to assume that students at public institutions are generally from lower-income groups compared to those attending private institutions. Such an assumption is really quite inaccurate, particularly given the diversity of both sectors. There are severe limitations in the data available to evaluate this issue, because statistics are generally only available for those who apply for financial aid.

Even given its limitations, data on the percentage of state resident students receiving TAP grants do show that overall a higher proportion of students at the independent institutions receive this type of assistance than at the State University. The proportion of students receiving TAP at the City University and at proprietary institutions is much higher than either. Data on minority enrollments show that the independent colleges serve a higher proportion of minority students than does the State University; CUNY and the proprietary institutions serve a much higher proportion than either.

There are indications that some of the independent colleges are in severe financial difficulties, and many institutions are being driven by enrollment pressures to "discount" their tuition. This term refers to the practice of selectively lowering tuition for students through various forms of institutional aid, generally taking a needs-based approach, in order to attract enrollment. Although the phrase has a pleasant connotation for students and their parents, and the practice has a progressive impact in equalizing opportunity, in many cases it poses a long-term problem for the institutions. Although some colleges have large enough endowments or other resources to support tuition discounting, for many others this practice may be financially unsustainable over the long term.

In many ways, tuition levels at private colleges are becoming like automobile prices: very few people pay the sticker price. A recent national study by campus business officers found that for every dollar of tuition increases since 1990, colleges have really only "collected" 46 percent of the increase; the remainder has been picked up by institutionally provided assistance, or "tuition discounting."[24]

Student aid is of great importance to students at both the independent and public sector institutions. Although some of the recently proposed TAP cuts would have impacted students at public institutions much more severely, over the longer term, the program's benefits for students at independent institutions may have been more severely curtailed. TAP is limited by a maximum grant of $4,125, which affects only the independents (because public university tuition is lower). The TAP

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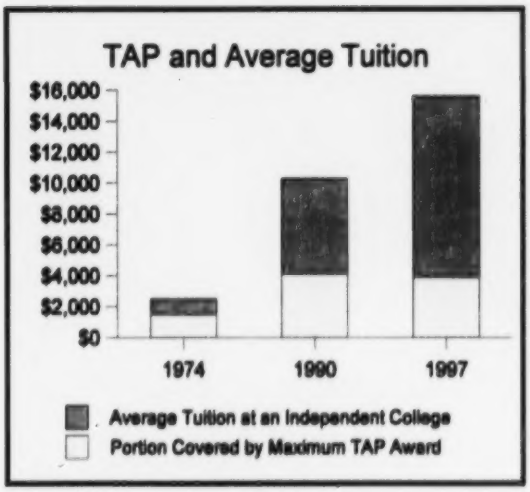
[24] *Survey Finds Growth in Tuition 'Discounting' by Private Colleges*, Chronicle of Higher Education, March 13, 1998.



maximum grant covered 60 percent of average tuition at an independent college in 1974, and today covers only 25 percent.

"Bundy aid," which is provided to independent institutions based on the number of degrees granted, has also been halved. This program is now funded at about $44 million annually, far below the "statutory level," which is based on a schedule of dollars per degree set in statute, but annually "notwithstood" by the budget legislation. The program was funded at the statutory level through 1990-91 (at which time it totaled $107 million).

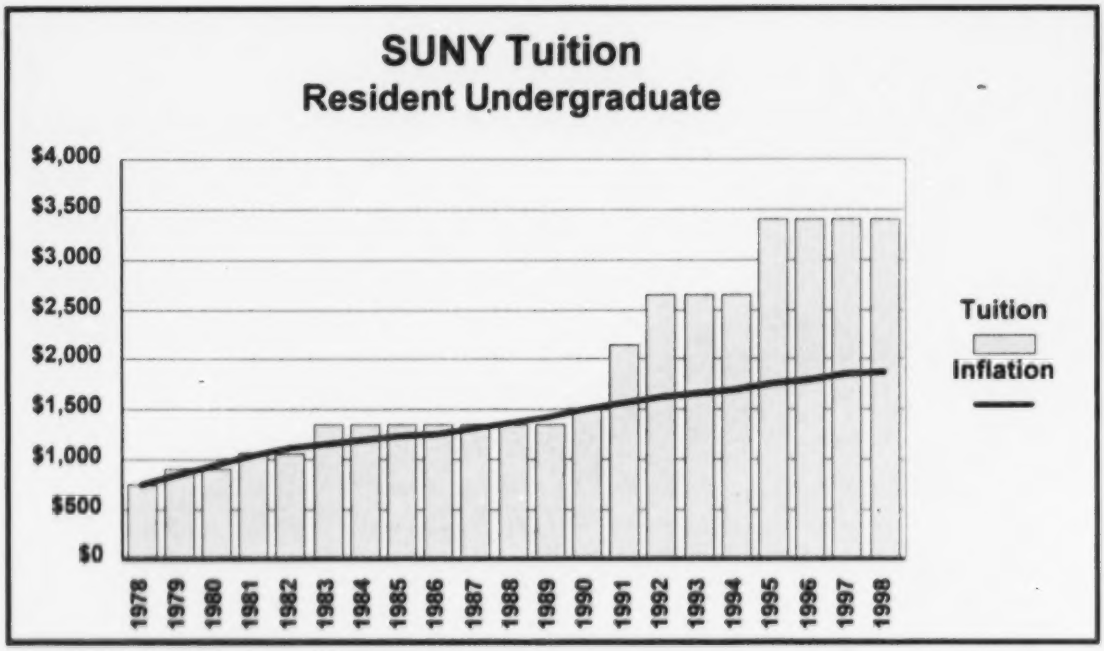
Public University Systems

State support for the public university systems has been dramatically reduced over the past ten years, both by operating budget cuts and by increases in tuition and fees (reducing the level of state support needed). Public university budgets are now more heavily supported by tuition and other university income than by state tax dollars.

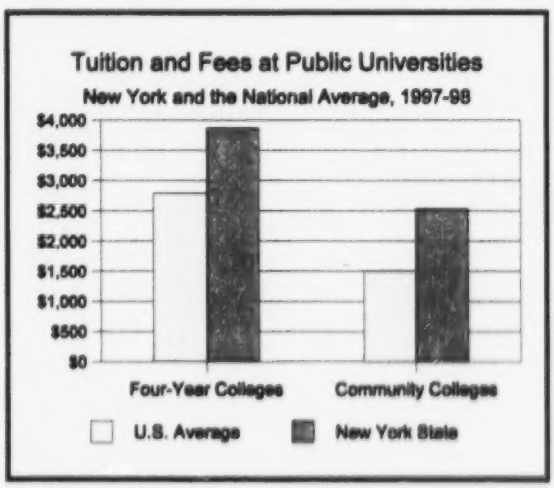
SUNY Core Operating Budget (State-operated campuses, data exclude capital, hospitals, residence halls and fringe benefits)	1986-87		1996-97		% Change 1986-87 to 1996-97
	$ millions	% of total	$ millions	% of total	
Total	$1,177	--	$1,510	--	28.0%
State Support	$888	75%	$695	46%	-22.0%
Tuition, fees, etc.	$289	25%	$816	54%	182.0%
Source: SUNY System Administration; data as of 2/24/97, no updated information yet available.					

CUNY has experienced a similar decline in budget support: state revenues supported 62 percent of the senior colleges' budget in 1992-93 and 54 percent 1996-97 (although these data are not directly comparable to that shown above for SUNY).

Undergraduate resident tuition at SUNY had been $400 from 1963 through 1970, and during the 1970's and 1980's the tuition increases were at a low enough level that the real price of tuition (adjusted for inflation) generally remained the same or even declined. In contrast, tuition increases in the 1990's have been at a rate exceeding inflation. SUNY resident undergraduate tuition at a four-year campus is now $3,400 annually (before student fees). At CUNY there was no tuition for resident undergraduates until 1976, when a $925 rate was instituted at the senior colleges. Tuition



at CUNY remained relatively low throughout the 1970's and 1980's, and was just $1,250 in 1990-91. Tuition at CUNY today is $3,200 at a senior college.

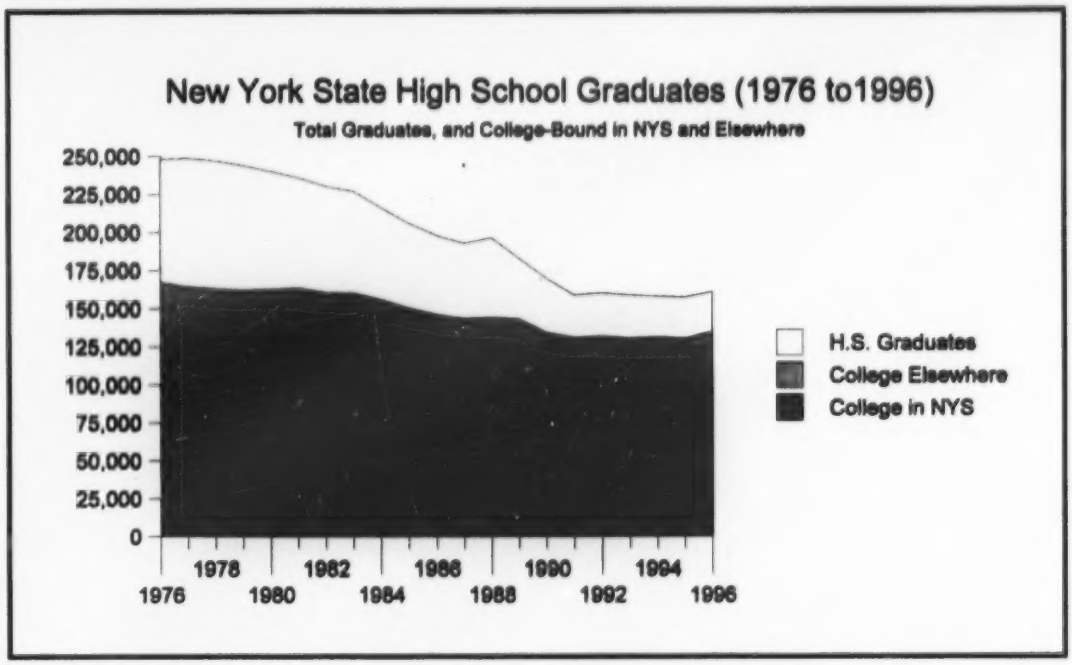


Although there are methodological questions and data problems involved in interstate comparisons of tuition and fees charged at public institutions, most studies find that charges at public institutions in New York State are significantly higher than they are nationally. For example, recent data prepared by the Washington State Higher Education Coordinating Board shows that resident undergraduate tuition and fees at public colleges and universities in New York State are 39 percent higher than the national average. At public community colleges, the differential is even greater, with New York exceeding the national charges by 69 percent.[25]

[25]This data was published in *Undergraduate Student Charges in Institutions of Higher Education, New York State, 1987-97*, NYS Education Department.

Enrollment Projections

Over the past two decades, the number of high school graduates in New York State has fallen from about 250,000 annually to about 160,000 — a decline of 90,000, or 36 percent. During this period, however, the percentage of high school graduates attending college has risen from about 66 percent to over 84 percent, allowing overall college enrollment in the State to remain relatively constant, at roughly one million students. Growth in attendance by non-traditional students has also been a factor in allowing overall enrollments to remain level.

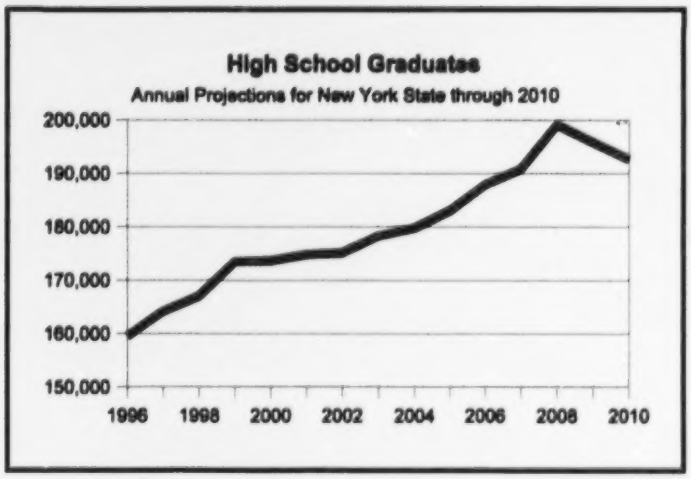


Currently, there are no higher education enrollment projections prepared centrally for New York State. Enrollment projections had previously been prepared by the State Education Department staff as part of the Regents statewide planning responsibility, but are no longer.

Despite the lack of projections in New York State's own planning process, there are a number of other data sources indicating that higher education enrollments will increase in the coming decades. The National Center for Education Statistics (NCES), for example, has projected that high school graduates will increase by 20 percent nationwide, and that higher education enrollments will go up by about 10-12 percent over the next decade.

Although it is widely accepted that an increased demand for college seats will occur, there are questions about the magnitude, which sectors and levels will be most affected, and whether the increased demand can be met through existing capacity.

Another data source is a study produced jointly by the College Board and the Western Interstate Central Higher Education Association, which prepared state level high school graduation projections for the entire nation, based on census data and projections, and NCES enrollment data. That study projects that New York State high school graduates will increase to nearly 200,000 annually over the next decade (a 25 percent increase), but taper off slightly during the years 2009 to 2012 to about 190,000.[26]



In addition to high school graduates, higher education enrollments are heavily influenced by the participation rates both of graduating high school students and nontraditional college students. Although the participation rates for both types of students have increased dramatically since the mid-1970's, it is difficult to project what will happen in the future. For example, the Regents 1992 statewide plan projections were based on the assumption that participation rates would continue to increase, as they had up until about that time. That assumption has turned out not to be correct, at least so far (i.e., rates have been fairly constant since 1992). Despite the lack of current projections, there is a general expectation that higher education enrollments will increase by in the coming decade, perhaps by as much as 30,000 to 50,000 students annually.

Although it is widely accepted that an increased demand for college seats will occur, there are questions about the magnitude, which sectors and levels will be most affected, and whether the increased demand can be met through existing capacity. The Commission on Independent Colleges and Universities, for example, estimates that most of the growth expected statewide could be absorbed within the facilities and faculty resources already available at private institutions that are operating under capacity. In other reports it has been argued that the public sector must increase capacity.

This is a vital issue for state policymakers to consider in fashioning programs and making funding decisions. It should also be pointed out that state policies themselves can substantially influence enrollment levels. For example, financial aid programs, public university tuition levels and admission requirements all have an impact on how many students participate in higher education, and how, when and where they do so.

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[26] *Knocking at the College Door, Projections of High School Graduates by State and Race/Ethnicity, 1996-2012*, joint publication of WICHE and The College Board (February 1988).

Economic Impact of Higher Education

Higher education is a major economic activity in New York State, with substantial direct and indirect impacts. As the state and national economies move further into the high-technology, service and information age, higher education is expected to become even more important as a driver of economic growth.

Higher education produces economic growth in the following ways:

- Directly, as a industry employing people, buying services, and bringing in dollars and students from out of state.
- By increasing the earning capacity and entrepreneurial ability of New Yorkers.
- By enhancing the State's advantage in terms of having a highly educated work force and a high critical mass of intellectual talent and ability. High technology industries, for example, tend to develop around learning hubs, as do other high value-added businesses.
- Through research and scholarship that increases productivity and creates new opportunities and even industries. The pure and applied research that occurs at institutions of higher education is indispensable to economic and social progress.
- Education, by positively influencing its recipients, helps to lower crime rates, unemployment, and health care and social service needs, all of which help to lower governmental costs and enhance long-term economic competitiveness.

Some of these impacts are readily measurable and others are not, but the overall positive effects of higher education are have been widely studied and documented. There is little disagreement that the benefits exist, although many cannot be precisely quantified.

The direct economic impact of colleges and universities in New York State is fairly easy to measure, as they are a major service industry with direct expenditures exceeding $17 billion annually.[27] A 1995 study by the State Education Department found that higher education employed 212,000 people statewide in 1993, and was the largest service industry in six counties and of major significance in at least 20 others.[28]

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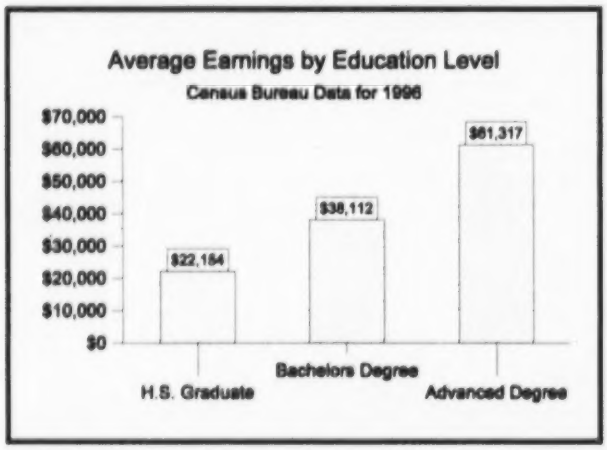
[27] *College and University Revenues and Expenditures, New York State, Fiscal Year ending 1995*, NYS Education Department, Office of Higher and Professional Education (January 1977).

[28] *Higher Education: A Major New York State Industry*, NYS Education Department, Office of Higher and Professional Education (March 1995).

The first round, direct expenditure, however, is only a part of the picture, because these funds are subsequently spent a number of times over. Employees, for example, spend their wages in the communities for food, shelter and other necessities and niceties — all of which create additional economic activity. Economists often measure this overall impact using a "multiplier" calculation, with the multiplier being the ratio between the initial direct expenditure and the sum of all the subsequent economic reverberations.

Multiplier calculations are always somewhat theoretical, however, as it is not possible to precisely estimate the multiplier effect that any set of direct expenditures will have. The 1995 study by the State Education Department cited above referred to several academic studies and concluded that a reasonable range for higher education economic multipliers would be from 2 to 2.75, meaning that each dollar of direct expenditure would increase economic activity by at least $2.00 and possibly by up to $2.75. The Education Department's study also added a conservative amount for spending by students and visitors to the direct expenditures, before applying the multiplier.[29]

Using the general approach taken in the Education Department study, and the larger direct expenditure reported for 1994-95 produces an estimate of total economic activity generated as a result of public and private education somewhere between $40 to $55 billion annually. This represents between 7 and 10 percent of the gross state product for 1994 ($565.2 billion).



Perhaps more important than the direct impact of higher education as a major service industry is the positive relationship between educational attainment and income. This well-known relationship is documented annually in Census data and explored in many studies. The most recent data show that persons with bachelors degrees earn on average 72 percent more annually than those with only a high school diploma, and those with an advanced degree earn 61 percent more than those with only a bachelors.

Applying the Census data for 1996 and calculating the impact by age group and sex yields the following: A high school graduate working from age 25 until 65 would earn about $980,000 (a

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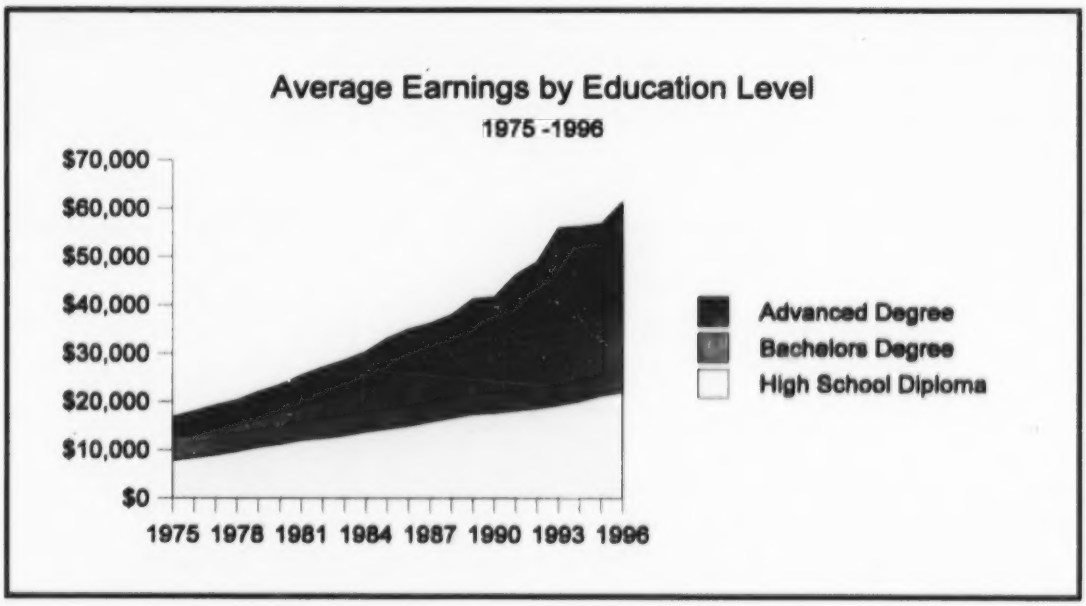
[29]Other studies have used other multipliers. A recent study from the University of Illinois, for example, used a multiplier of 2.27. *Think New York*, a CICU study on the independent colleges uses a 2.5 multiplier. A recent report from SUNY uses a generic multiplier of 1.64, and CUNY uses a multiplier of 1.9 in its annual report on economic impact.

lifetime average just under $25,000) whereas an individual with a bachelors degree can expect lifetime earnings of more than $1.6 million (averaging $40,000 a year).

It should be acknowledged that a variety of approaches can be used to estimate education's impact on earnings over a lifetime, and the results are very different when the population is divided between male and female, or by racial and ethnic background. For example, the differential is greater when computed for men only: expected earnings for a male high school graduate between 25 and 65 would be $1.2 million (a lifetime average of $31,000) compared to $2 million for a college graduate (an average of $50,000).[30]

Not only does income generally increase in relation to education, the earnings differential has been increasing as education becomes an even more valuable asset. Census data for past several decades show that having a bachelors or advanced degree is been becoming more and more significant in terms of income. Twenty years ago an individual with a bachelors degree could expect earnings 45-55 percent greater than someone with only a high school diploma, and an advanced degree was associated with earnings 25-35 percent greater than a bachelors. Today the differentials are greater, and an individual with a bachelors degree on average earns 70-80 percent more than with only a high school diploma, and an advanced degree on average produces and additional 50-60 percent in earnings.[31]



[30]Other methodological issues include the time period for comparison, whether income or earnings are considered, and whether medians or means are used. Some studies account for individual expense for education, the "opportunity cost" of not working during the schooling period and discount the future value of earnings.

[31]Percentage ranges have been used in this comparison because the data differ significantly between men and women, and also because the annual point-in-time estimates vary from year to year.

Based on this positive relationship between education and income, several recent economic studies have developed models to calculate the payback value of state investments in higher education. For example, a University of Massachusetts economist estimated the incremental income and sales tax receipts resulting from higher earnings of graduates and also the impact of higher education as an "export base" industry, bringing in funds from out-of-state. This study concluded that each state dollar invested in the University of Massachusetts would have a payback in tax receipts over time equivalent to a nominal rate of return of 8.9 percent.[32]

The personal benefits of a higher education are dramatic and fairly easy to substantiate using available census data on earnings. However, the collective social and economic benefit to society of having a more highly educated citizenry may be even greater, although these impacts are difficult to impossible to quantify.

Another study at the University of Illinois produced similar results. Taking a similar approach, this study found that state investments had a variable payback depending upon the gender of students and level of study (resulting from the variable impact on earnings). For example, state support for a male bachelors degree student produced a 7.4 percent rate of return for the state, but the return for female students was lower, producing a 6 percent rate of return. Although advanced levels of study produced much higher tax receipts over time, the higher cost and state subsidy for those levels of study produced a lower, although still positive return.[33]

The increased earnings approach has also been used in papers on economic impact prepared by New York State education institutions themselves. These reports have generally only used this approach as illustrations, however. They have not taken the scientific approach applied in the two papers cited above (that is, they have not calculated a present value for estimated increased tax receipts to be received over time). For example, SUNY estimates that its 1.6 million alumni contribute $17 billion annually to the State's economy through increased personal earning power.[34] CUNY reports that their graduates from the period 1970-1997 living in New York City or State contribute $708 million more in taxes than if they had not received a college education.[35]

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[32] *UMASS/Boston, An Economic Impact Analysis*, Barry Bluestone, University of Massachusetts (January, 1993).

[33] *Incremental Tax Revenue Effects of Higher Education*, Ward Randall Kangas, University of Illinois at Urbana-Champaign (1997).

[34] *A Return on Your Investment: The Economic Impact of SUNY on New York State*, (State University of New York, Albany, 1996)

[35] *Investing in New York's Future: The CUNY Portfolio, A Report on the Economic Impact o f The City University of New York*, CUNY, Office of University Relations (1998)

The personal benefits of a higher education are dramatic and fairly easy to substantiate using available census data on earnings. However, the collective social and economic benefit to society of having a more highly educated citizenry may be even greater, although these impacts are difficult to impossible to quantify.

Education at all levels is nevertheless an investment which can result in lowered expenditures elsewhere, including criminal justice and public assistance. State policies, therefore, which ensure broad access to higher education undoubtedly have a positive impact over time on a number of levels. Similarly, fiscally motivated reductions in support may have a negative impact over time, even if this impact is only considered in terms of the state's own tax receipts. The common-sense assumption that higher tuition and reduced student aid can depress participation has been borne out in a recent study.[36] "Savings" from tuition hikes and student aid cuts may therefore be only short-term savings, and the long-term impact may be dampened economic growth and greater costs to state government.

The positive impact of higher education is particularly pronounced when the recipient is from a lower-income or disadvantaged background; this relationship has been described in a recent study at Yale.[37] In New York State, students from disadvantaged backgrounds are served by opportunity programs such as EOP at the State University and HEOP for independent schools, and also by a variety of remedial education programs. Although remedial programs are often perceived in a poor light, as being less than college-level work, it is important to consider that the economic payback of these programs may be substantially greater than for prestigious graduate programs, as an example.

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[36] *Does Student Aid Affect College Enrollment? New Evidence on a Persistent Controversy*, Michael McPherson and Morton Shapiro (The American Economic Review: March, 1991)

[37] *Changing the Odds: Open Admission and the Life Chances of the Disadvantaged*, New Haven and London, Lavin and Hyllegard (Yale University Press, 1996)

College Choice Savings Program
Fact Sheet

- Beginning in September 1998, individuals may open a special higher education savings account -- called a Family Tuition Account -- and benefit from New York State and federal tax incentives. The account owner must designate a single beneficiary for each account. A separate account may be opened for each child.

- An account can be opened with a minimum regular contribution of $25 through electronic funds transfer from a bank account or payroll deduction by participating employers or $250 by check.

- Every year up to $5,000 in contributions to an account may be deducted by a New York resident from State taxable income. Married individuals whether filing jointly or separately may each deduct contributions up to $5,000 annually, for a total deduction of up to $10,000. Investment earnings on account are also New York State tax exempt, and are deferred for federal tax purposes. Up to $100,000 can be contributed over the lifetime of all accounts for one beneficiary.

- An account must be open for at least three calendar years before making a qualified withdrawal.

- The account beneficiary can use the funds to pay for tuition, room and board, fees, books, supplies and equipment required for enrollment or attendance. The funds can be used at a public or private institution of higher education or business, trade, technical or other occupational school, whether or not located in New York State. The school must be approved by the New York State Board of Regents or a designated nationally recognized accrediting agency.

- Account balances will not be used in the calculation of New York State student financial aid programs. However, other financial aid programs -- private, federal, school -- could consider Family Tuition Accounts in calculating assistance.

- State Comptroller H. Carl McCall and the Higher Education Services Corporation will jointly administer the program. It will be managed by TIAA, part of TIAA-CREF, a New York-based not-for-profit financial services organization with over $230 billion in assets under management.

- Investments will be in a combination of equities, bonds and money market instruments. To maximize returns and minimize risk, allocations are weighted more heavily toward equities for younger beneficiaries, and shifting more toward bonds and money market instruments as beneficiaries approach college age.

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- There is no guaranteed rate of return on investments of Family Tuition Accounts and there is no guarantee that the account will be sufficient to cover all higher education expenses at any specific institution(s).

- If the owner of a Family Tuition Account withdraws the funds for use other than for the qualified higher education expenses of the designated beneficiary, then the funds may be treated as taxable income for both federal and State income tax purposes and, in addition, a federally-mandated penalty will be payable on the investment income withdrawn.

Information about The New York State College Choice Tuition Savings Program will be easily accessible via a toll-free hotline (1-877-NYSAVES) and Internet web site (www.nysaves.org).

(NOTE: Commencement of the College Choice Tuition Savings Program is subject to various conditions including receipt of rulings and interpretations from the Internal Revenue Service, the New York State Department of Taxation and Finance and the staff of the United States Securities and Exchange Commission. This fact sheet does not provide all material information concerning Family Tuition Accounts and the College Savings Program. The accounts are offered only through Tuition Savings Agreements and a Savings Program brochure which described the College Savings Program.)

(Updated as of August 4, 1998)